

## Message Text

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ACTION EB-11

INFO OCT-01 NEA-14 ISO-00 AGR-20 CIAE-00 COME-00 INR-11

LAB-06 NSAE-00 RSC-01 SP-03 STR-08 TRSE-00 SWF-02

CIEP-03 FRB-03 OMB-01 L-03 DRC-01 /088 W

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R 071134Z AUG 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 6175

LIMITED OFFICIAL USE SECTION 1 OF 2 ISLAMABAD 7620

FOLL TEL SENT ACTION ISLAMABAD INFO LAHORE FROM KARACHI  
AUG 6 REPEATED TO YOU:

QUOTE

KARACHI 1627

E. O. 11652: N/A

TAGS: EIND, EAGR, ETRD, ECON, PK

SUBJECT: TEXTILE INDUSTRY CRISIS AND ITS PROBABLE EFFECT  
ON UPCOMING BILATERAL TEXTILE NEGOTIATIONS

REF: A) KARACHI 0703 B) HONG KONG 8259

C) KARACHI 1563 D) STATE 165128

E) KARACHI 1606

SUMMARY: LATEST DEVELOPMENTS IN PAK COTTON INDUSTRY  
CRISIS INCLUDE SPLIT BY MILL OWNERS OVER RESPONSE TO  
MIN FINANCE MUBASHIR'S PROPOSED PROFIT/LOSS SHARING SCHEME  
(SEE PARA 5, REF C), RESULTING IN POSSIBLE BREAKUP OF POWERFUL  
ALL PAKISTAN TEXTILE MILLS ASSOCIATION (APTMA) AND  
ESTABLISHMENT OF NEW PAKISTAN SPINNERS ASSOCIATION,  
WITH THE LATTER PREFERRING TO ACCEPT MUBASHIR'S OFFER AND  
REMAINING MEMBERS OF APTMA OPPOSED. EXPORT DUTY ON  
COTTON CLOTH, HOSIERY AND MANUFACTURES ABOLISHED AT  
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MEETING CHAIRED BY PRIME MINISTER IN QUETTA BUT DUTY ON

YARN EXPORTS REMAINS. PAK DELEGATION TO UPCOMING BILATERAL TEXTILE CONSULTATIONS WILL PROBABLY PRESS FOR LARGE INCREASE IN COTTON YARN QUOTA. END SUMMARY.

1. PAK COTTON TEXTILE CRISIS WHICH AMPLY DESCRIBED IN REFTELS IS PRIMARILY DUE TO SLUMPING WORLD MARKET FOR COTTON YARN AND INCREASING BUILD-UP OF YARN INVENTORIES BY PAKISTANI COTTON SPINNERS. CRISIS ALSO INCLUDES LESS SEVERE SLUMP IN MARKET FOR COTTON CLOTH AND MANUFACTURES. IMPACT OF CRISIS ON LOCAL INDUSTRY HAS BEEN MOST SEVERE ON THOSE MILLS WHICH ARE ONLY INVOLVED IN COTTON SPINNING WITHOUT FURTHER DOWNSTREAM WEAVING AND FINISHING. INTEGRATED COTTON MILLS WHICH INCLUDE SPINNING, WEAVING AND FINISHING PROCESSES HAVE CONTINUED TO OPERATE PROFITABLY ALTHOUGH MARGINS HAVE DECLINED. MANY SPINNERS APPARENTLY OPERATING AT LARGE LOSSES.

2. FACT THAT TEXTILE PRICE SLUMP HAS HIT YARN PRODUCERS MOREHEAVILY THAN LARGE INTEGRATED CLOTH PRODUCERS REFLECTED IN LAST WEEK'S APPARENT SPLIT UP OF FORMERLY MONOLITHIC, POWERFUL APTMA OVER ISSUE OF RESPONSE TO MIN FINANCE MUBASHIR'S PROPOSED PROFIT/LOSS SHARING SCHEME DESCRIBED IN REF C. SPINNERS WHO SUFFERED GREAT LOSSES AND IN WEAKEST FINANCIAL CONDITION PREFERRED TO ACCEPT MUBASHIR'S OFFER WHILE OWNERS OF INTEGRATED MILLS STILL MAKING PROFITS REFUSED MUBIEX NNJS OFFER WHICH THEY CONSIDERED FIRST STEP TOWARD NATIONALIZATION OF INDUSTRY. LARGE INTEGRATED MILLS OWNED, IN GENERAL, BY "22 FAMILIES" WHICH HAVE ALREADY SUFFERED MOST FROM PREVIOUS GOP NATIONALIZATIONS AND, THEREFORE, ARE MOST LEERY OF ANY GOP INTERFERENCE IN TEXTILE INDUSTRY. IN APTMA GENERAL MEETING EARLY LAST WEEK PROPOSAL BY OWNERS OF LARGE INTEGRATED MILLS TO TURN DOWN MUBASHIR'S PROFIT/LOSS SHARING SCHEME WON IN CLOSE VOTE. DISGRUNTLED SPINNING MILL OWNERS REPORTEDLY WALKED OUT OF MEETING TO DEMONSTRATE THEIR OPPOSITION TO APTMA HARD LINE.

3. PRESS REPORTS ON AUG 1 DESCRIBE FORMATION OF "PAKISTAN SPINNERS ASSOCIATION" (PSA) AND STATE THAT, AS OF JULY 31, TWENTY-TWO SPINNING UNITS HAD QUIT APTMA TO JOIN NEW LIMITED OFFICIAL USE

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ORGANIZATION. PRESS REPORTS ON AUG 2 STATE PSA FORMALLY ORGANIZED IN KARACHI ON AUG 1 AND SENT TELEGRAM TO MUBASHIR ACCEPTING HIS PROFIT/LOSS SHARING SCHEME FOR YARN EXPORT TRADE AND SEEKING IMMEDIATE INTERVIEW. CONGEN CONTACTED SPOKESMAN PSA AUG 2 WHO LARGELY CONFIRMED PRESS REPORT. HE ALSO NOTED TWENTY-NINE SPINNING MILLS INCLUDING 4 IN PUNJAB NOW INTEND JOIN PSA.

4. DURING HIGH LEVEL MEETING ON ECONOMIC SITUATION CHAIRED BY PM BHUTTO IN QUETTA AUG 1 DECISION MADE TO ABOLISH EXPORT DUTY ON COTTON CLOTH, MANUFACTURES AND HOSIERY. EXPORT DUTY ON YARN REMAINS BUT PRESS PREDICTED SOLUTION TO YARN CRISIS WILL OCCUR AS A RESULT OF "SCHEME" BEING FORMULATED IN ISLAMABAD TO BE OPERATIVE NEXT WEEK.

5. IN ORDER OBTAIN ASSESSMENT OF TEXTILE CRISIS AND ITS IMPACT ON UPCOMING BILATERAL TEXTILE NEGOTIATIONS, CONGENOFF MET WITH ASKARI TAQVI, DIRECTOR GENERAL, GOP EXPORT PROMOTION BUREAU ON AUG 2. TAQVI STATED HE WAS A MEMBER OF GOP DELEGATION TO 1973 BILATERAL NEGOTIATIONS. BESIDES BEING EPB'S EXPERT ON COTTON TEXTILES, TAQVI IS ALSO AN EX-OFFICIO MEMBER BOARD OF DIRECTORS OF COTTON EXPORT CORPORATION. HE ALSO PARTICIPATED IN JULY 1973 NEGOTIATIONS. TAQVI EXPECTS ANOTHER ROUND OF NEGOTIATIONS LATER THIS MONTH IN WASHINGTON. HE DOES NOT KNOW EXACT COMPOSITION PAK DELEGATION BUT BELIEVES ENTIRELY POSSIBLY SECY COMMERCE E. A. NAIK MAY BE ONLY GOP REP WHO WILL GO TO WASHINGTON. TAQVI RECALLED THAT AS A RESULT OF 1973 NEGOTIATIONS, U.S. QUOTA ON PAK TEXTILES WAS RAISED AND A CONVERSION FORMULA WAS INTRODUCED. HE BELIEVES CLOTH QUOTA HAS BEEN REGULARLY FILLED BY PAKISTAN BUT THAT NEGLIGIBLE AMOUNT PAK YARN HAS BEEN EXPORTED AGAINST QUOTA BECAUSE NEW YORK YARN BUYERS' QUALITY SPECS ARE VERY HIGH AND PAK EXPORTERS HAVE FAILED TO MEET THEM. TAQVI ACKNOWLEDGES PAKISTAN INDEED IN MIDST OF SERIOUS TEXTILE CRISIS AND WOULD EXPECT "HER FRIENDS" TO ASSIST IN FINDING SOLUTION.

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CIEP-03 FRB-03 OMB-01 L-03 DRC-01 /088 W

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R 071134Z AUG 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 6176

LIMITED OFFICIAL USE SECTION 2 OF 2 ISLAMABAD 7620

FOLL TEL SENT ACTION ISLAMABAD INFO LAHORE FROM KARACHI  
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6. CONGENOFF INQUIRED AS TO RATIONALE OF PM'S ABOLISHING EXPORT DUTY ON COTTON CLOTH ONLY, WHEN YARN WAS ITEM WHICH WAS HARDEST HIT BY CURRENT MARKET SLUMP. TAQVI EXPLAINED THAT ABOLITION OF EXPORT DUTY ON CLOTH AND MANUFACTURES WOULD BE SUFFICIENT TO ALLOW THOSE PRODUCTS TO COMPETE EFFECTIVELY IN WORLD MARKET SINCE PRICES OF THOSE PRODUCTS HAVE DECLINED ONLY SLIGHTLY. TAQVI CLAIMS YARN PRICES HAVE DECLINED SO DRASTICALLY THAT ELIMINATION OF 20 PERCENT EXPORT DUTY ON YARN WOULD NOT BE SUFFICIENT TO HAVE DESIRED EFFECT. INSTEAD, IT WOULD FURTHER DEPRESS WORLD MARKET PRICES WITHOUT INCREASING PAK YARN EXPORTS SIGNIFICANTLY. TAQVI COULD NOT PREDICT HOW THIS PROBLEM WILL BE SOLVED BUT BELIEVES MUBASHIR'S PROFIT/LOSS SHARING SCHEME MAY BE ANSWER.

7. AS POINTED OUT ABOVE WORLD TEXTILE CRISIS HAS PRIMARILY AFFECTED COTTON YARN INDUSTRY. COTTON CLOTH AND MADE-UPS HAVE CONTINUED TO BE EXPORTED ALTHOUGH AT LOWER PRICES  
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THAN DURING RECENT COTTON BOOM. THIS APPEARS TO BE THE EXPLANATION FOR INCREASE IN PAK COTTON EXPORTS TO U.S. AS REPORTED IN REF D. ACCORDING AVAILABLE STATISTICS, WHICH CONFIRMED BY TAQVI, PAK EXPORTS TO U.S. ARE CLOTH AND MANUFACTURES, NOT YARN. INCREASED PAK EXPORTS TO U.S. ARE DUE TO INCREASED U.S. QUOTA AND APPARENTLY CONTINUING HIGH DEMAND IN U.S. FOR PAK CLOTH AND MADE-UPS. ANOTHER POSSIBLE EXPLANATION FOR INCREASE OF PAK TEXTILE EXPORTS TO U.S. IS THAT IN EARLY 1973, CLOTH PRICES IN OTHER MARKETS MAY HAVE BEEN GREATER THAN PRICE IN U.S. THEREBY DIVERTING EXPORTS FROM U.S. NOW WITH SLUMPING PRICES WORLDWIDE PAK TEXTILE EXPORTS MAY HAVE BEEN SWITCHED TO U.S. WHERE CLOTH PRICES MAY NOT HAVE DECLINED SO SHARPLY. AT ANY RATE, CONGEN NOT AWARE OF ANY PROCEDURE WHEREBY TEXTILE EXPORT DUTY HAS BEEN WAIVED OR REDUCED FOR EXPORTS TO U.S.

8. COMMENT: IN VIEW OF FOREGOING, PARTICULARLY INFO PROVIDED BY TAQVI, IT APPEARS THAT GOP'S APPROACH IN

UPCOMING BILATERAL NEGOTIATIONS WILL INCLUDE STRONG  
PLEAS FOR LIBERALIZATION OF PAK TEXTILE QUOTA. GIVEN U.S.  
INTEREST IN VIABLE PAK ECONOMY AND IN LIGHT OF VERY REAL  
TEXTILE CRISIS, WOULD SEEM IMPORTANT THAT DEPARTMENT  
TAKE FULL COGNIZANCE OF CRISIS IN REACHING DECISION ON  
ANTICIPATED GOP REQUESTS.  
TIGER UNQUOTE LUPPI

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TEXTILE INDUSTRY, SALES, EXPORTS, COTTON, NEGOTIATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 07 AUG 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** cunninfx  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
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**Previous Handling Restrictions:** n/a  
**Reference:** A) KARACHI 0703 B) HONG KONG 8259  
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